

Most Frequently Asked Questions

Today, hundreds of thousands of individuals could be eligible for the Health Coverage Tax Credit (HCTC). The following is a list of questions most frequently asked on general program information, eligibility, registration, health plans and payment.

General Information

1. What is the HCTC and who is eligible?

The Health Coverage Tax Credit (HCTC) is a federal tax credit that pays 65% of the qualified health plan premiums paid by eligible individuals. There are two ways to claim the credit: in advance – on a monthly basis – to help pay health plan premiums as they come due, or when filing federal tax returns. The following individuals are potentially eligible for the tax credit: individuals certified by Department of Labor to receive certain benefits under the Trade Adjustment Assistance (TAA) program or Alternative Trade Adjustment Assistance (ATAA) program and some individuals who receive benefits from the Pension Benefit Guaranty Corporation (PBGC).

2. What is Trade Adjustment Assistance (TAA)?

Trade Adjustment Assistance is a program administered by the U.S. Department of Labor for workers who, as a result of increased imports, have lost their jobs or whose hours of work and wages were reduced. TAA includes a variety of benefits and reemployment services to help unemployed workers prepare for and obtain suitable employment. Workers may receive assistance in skill assessment, job search workshops, job development/referral and job placement. In addition, workers may be eligible for training, job search allowance, relocation allowances and the health coverage tax credit. Weekly Trade Readjustment Allowance (TRA) may be payable to eligible workers following their exhaustion of unemployment benefits. Usually, TRA benefits will be paid only if an individual is enrolled in a TAA-approved training program. To learn more about TAA, please visit the Department of Labor Employment and Training Administration website at www.doleta.gov.

3. What is Alternative Trade Adjustment Assistance (ATAA)?

The Alternative Trade Adjustment Assistance (ATAA) Program was established by the Trade Adjustment Assistance Reform Act of 2002. The Act establishes ATAA as an alternative assistance program for older workers certified eligible to apply for Trade Adjustment Assistance. ATAA is designed to allow TAA eligible workers (for whom retraining may not be appropriate) who find reemployment to receive a wage subsidy to help bridge the salary gap between their old and new employment. To receive the ATAA benefits, workers must be TAA and ATAA certified. Please contact the Department of Labor Employment and Training Administration (DOLETA) for more information.

4. What is the Pension Benefit Guaranty Corporation (PBGC)?

The PBGC is a federal corporation which insures the pension benefits of about 43 million working men and women in nearly 40,000 private sector "Defined Benefits Pension Plans". The PBGC was created on September 2, 1974 when the "Employee Retirement Income Security Act (ERISA) of 1974" was enacted.

A defined pension plan that does not have enough money to pay benefits may be terminated if the employer responsible for the plan faces severe financial difficulty, such as bankruptcy, and is unable to maintain the plan. In cases such as these, the PBGC then pays pension benefits under the terms of the plan, subject to legal limits, to plan participants and beneficiaries. The majority of the plans the PBGC has trusted have been in the manufacturing, steel and airline industries. To learn more about the PBGC, please visit their website at www.pbgc.gov.

5. How can I determine if an individual may be eligible for the HCTC?

To begin with, you may ask the individual if he or she is now, or was during any part of 2003:

1. Receiving benefits under the Trade Adjustment Assistance Act (TAA) or the Alternative Trade Adjustment Assistance (ATAA) programs?
2. Receiving payments from the Pension Benefit Guaranty Corporation (PBGC), including lump sum payments received after August 5, 2002, and are between the ages of 55 and 65*?

If the individual answers yes to one of these questions, then he or she is potentially eligible to receive the HCTC. You may also refer to the HCTC eligibility chart (IRS Publication 4251).

* If individuals are over the age of 65 and not eligible for Medicare, they may be eligible for the HCTC.

6. What are the main reasons an individual would not be eligible for the HCTC?

Individuals are not eligible for HCTC if they:

- are not receiving pension payments from PBGC or benefits under TAA/ATAA
- are eligible for Medicare, or have another form of disqualifying health coverage
- are not enrolled in a qualified health plan option
- are imprisoned by a federal, state, or local authority
- can be claimed as dependent on another individual's federal tax return

7. Where can I get more information about HCTC eligibility requirements?

For questions about eligibility, please call the HCTC Customer Contact Center: (toll free) **1-866-628-HCTC**, TDD/TTY: 1-866-626-4282 or visit www.irs.gov (IRS Keyword: HCTC).

8. Do I need a power-of-attorney to call the HCTC Customer Contact Center on behalf of my client?

No. However, as this person's tax preparer, you must be authorized by that person to discuss his/her HCTC account. This is done in one of two ways. The eligible individual may authorize the tax preparer on the HCTC Registration form or call the HCTC Customer Contact Center and request that the tax preparer be set up as a third-party designee.

9. If an individual received the HCTC last year, is he or she automatically eligible to receive it this year?

No. Eligibility for the HCTC is determined on a monthly basis. For each month an individual claims the credit, whether in advance or on their federal tax return, he or she must be eligible through TAA/ATAA or PBGC and enrolled in a qualified health plan.

Health Plans

10. What is a qualified health plan?

A qualified health plan is one that is allowable under the HCTC legislation. The following health plan options are qualified for the HCTC:

- a. COBRA: This is temporary coverage that is required to be offered under the federal Consolidated Omnibus Budget and Reconciliation Act of 1985 by most employers with group health plans. Employees are offered the opportunity to continue coverage under their employers' plans in the case of layoffs, termination or other qualifying events.
- b. Non-group (individual) coverage: This coverage type, purchased as non-group insurance, must have been purchased 30 days prior to the date the individual separated from the job that led to the receipt of or qualification for TAA benefits, ATAA benefits, or PBGC benefits.
- c. Spousal coverage: This is coverage under a group plan that is available through the employment of an eligible individual's spouse where the employer contributes less than 50% of the cost of coverage. This type of coverage can only be claimed when individuals file their federal tax returns and not in advance.
- d. State-qualified health plan: This coverage type consists of health plans that State Departments of Insurance may have qualified specifically for the HCTC program. The coverage must meet the legislative requirements for health insurance set forth in the Trade Act of 2002.

11. How do I find out if a particular state has qualified health plans for the HCTC?

For a listing of HCTC state-qualified plans, please visit the IRS website at www.irs.gov (IRS keyword: HCTC) or call the HCTC Customer Contact Center at 1-866-628-HCTC.

Tax Forms

12. What 2003 IRS publications can I use to help individuals claim the tax credit on their tax return?

IRS Publication 502, Medical and Dental Expenses, and Publication 17, Your Federal Income Tax for Individuals, provide information about the HCTC. These publications may be obtained through the web at www.irs.gov or by calling the IRS at 1-800-TAX-FORM.

13. What IRS tax forms should be used to claim the HCTC on a federal tax return?

Eligible individuals should use IRS Form 8885 to claim the HCTC on their federal tax returns. This form helps them determine if they are eligible and provides instructions for claiming the tax credit. They should complete Form 8885 and file it along with Form 1040, 1040NR (long form), 1040PR (Puerto Rico), or 1040SS (self-employed). Form 8885 cannot be filed with 1040EZ or 1040A (short form).

14. What documentation should be submitted to support one's claim for the HCTC on the federal tax return?

The following must be attached for all types of qualified health coverage: invoices and proof of payment for any amounts included on line 2 of Form 8885 for the months in which the individual did not receive advance payments. For COBRA coverage, the COBRA election letter must also be attached.

For spousal coverage, proof of payment should include:

1. Copies of paycheck stubs identifying the health coverage deduction for the pay period or months
2. A letter or other statement from the spouse's employer that indicates the employer contributes less than 50% of the cost of coverage.

15. Where can I obtain Form 8885?

You can obtain the form from the IRS website: <http://www.irs.gov/pub/irs-pdf/f8885.pdf> or by calling the IRS at 1-800-TAX-FORM (1-800-829-3676).

16. Who sends Form 1099-H and why?

The HCTC program sends the Form 1099-H to individuals who received one or more advance HCTC payments in 2003. Form 1099-H displays the amount of the advance tax credit that was paid towards your qualified health plan premiums for the months in which you participated in the advance HCTC program. This form should be used to help complete Form 8885. However, it should be kept by the individual for his/her records and not be filed with the individual's tax return.

17. If the IRS Form 8885 is filed electronically, how should I provide the required documentation?

When filing electronically, please be sure to attach required documents to Form 8453, U.S. Individual Income Tax Declaration for an e-file Return. If the return was e-filed through the On-Line system, then attach the documents to Form 8453-OL, U.S. Individual Income Tax Declaration for an e-file Online Return.

18. What is Form 8887?

Form 8887 was generated to notify individuals receiving Trade Adjustment Assistance (TAA) or a PBGC pension in December, 2002 that they may have qualified for the HCTC. The form is no longer being sent or used.

HCTC Candidates by Industry and Geography

19. Are there geographic areas that have a greater likelihood of including candidates for the HCTC?

Yes. Please refer to the July 31, 2003 Treasury Press Release at <http://www.treasury.gov/press/releases/js623.htm> for HCTC eligible population estimates by state.

20. Can I get a list of companies whose employees have been recently certified for TAA benefits?

Yes. You should refer to the Department of Labor Employee and Training Administration website at www.doleta.gov for this information. Select 'Trade Act Programs' from the menu bar on the right and click on the 'Determinations' link found on that page.

21. Can I get a list of companies whose pensions have been taken over by PBGC?

Yes. Refer to the PBGC website at www.pbgc.gov for this information. Select 'Pension Search...' by company or by state for a list of companies.